

INVESTING IN THE **LEGAL** **CANNABIS MARKET** IN 2021: THE COVID-19 LULL IS OVER

A huge, proven and global market is quickly growing as territories around the world legalise marijuana in its different forms and uses, with Europe the biggest opportunity.



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Introduction

The global medical cannabis market is expected to be worth \$13.5 billion in 2021. And according to market researchers Grand View Research, it is expected to expand at a compound annual growth rate (CAGR) of 26.7% between 2021 to 2028 to a total value of \$70.6 billion.

The legal cannabis market is still in its early stages of development. But its fast growth as the drug is legalised for medicinal and recreational use in a growing number of territories internationally represents a potentially exciting, if risky, investment opportunity.

This report will give you a full overview of the legal cannabis market and the opportunity it represents for investors willing to take on a higher level of risk in the pursuit of the potential rewards such a young, valuable and high growth market can offer.

WE COVER:

- ✔ A brief history of cannabis use over the years
- ✔ Why is legalisation happening now, how quickly and where?
- ✔ Why was the sale and consumption of cannabis criminalised and banned for several decades despite thousands of years of human consumption?
- ✔ How big exactly is the market opportunity that the legalisation of cannabis represents?
- ✔ How can the legal cannabis market be broken down across the medical and recreational sectors and cultivation, supply and retail chains?

And

- ✔ The routes open to investors as well as the opportunities and risks investing in the legal cannabis market involves.

A Brief Human History Of Cannabis Consumption

For thousands of years, the cannabis plant had a central place in the agricultural and medical history of humanity. 6000 years ago, Chinese farmers cultivated five staple food crops. Cannabis was one of the five.

The earliest records of cannabis being used as a medicine date back almost 5000 years to 2737 BCE. That's the year of records that show then Emperor Shen-Nung recognised its properties for the treatment of over 100 ailments from gout and rheumatism to malaria.

From at least 4000 years ago, the nomads that roamed the Indo-European landmass used cannabis in steam baths, ancient Egyptian papyrus records note its use in the treatment of inflammations and Indian medics of the ancient Ayurvedic school applied the herb to treat epilepsy, rabies, anxiety, and bronchitis. Greco-Roman physicians are documented as having prescribed it for toothache, earache and labour pains.

As recently as the early 20th century, medical cannabis products were available over-the-counter in pharmacies and recommended for nausea, rheumatism, labour pains and even coughs.

It can be presumed that recreational or ritualistic use of cannabis goes back as far as its medical use but written records are sparser. Hindu religious texts, the Atharva Vedas of 2000-1000 BCE offer a clue by referring to cannabis as a "source of happiness" and "joy giver".

Those thousands of years of history came to an abrupt end in the first half of the 20th century. In 1914 the Harrison Narcotics Tax Act declared drug use a crime in the USA and the 1937 Marihuana Tax Act criminalised the use and sale of cannabis, which was, many now believe arbitrarily, grouped with powerful narcotics such as cocaine and heroin. That legal status quickly spread internationally with the USA by then the world's preeminent political, economic and military power.

Almost a century later, the decision to class cannabis together with more powerful and addictive drugs is now finally being reviewed. And reversed.

A new era of research into the medicinal qualities of cannabis

Relatively recently, anecdotal evidence of cannabis's therapeutic qualities finally gave way to proper clinical research. It's still early days for medical cannabis and cannabis-derived drugs. But one cannabis-derived pharmaceutical treatment for rare kinds of seizures, Epidiolex, was approved by the FDA in June 2018 and by other international regulators since.

Clinical trials for other pharmaceutical treatments derived from cannabinoids, the active compounds found in the drug are ongoing. As is research into the plant form's efficacy in the treatment of diseases and symptoms including:

Cancer, chronic pain, depression, arthritis, diabetes, glaucoma, migraines, epilepsy, multiple sclerosis, acquired immunodeficiency syndrome (AIDS), amyotrophic lateral sclerosis (ALS), Alzheimer's, post-traumatic stress disorder (PTSD), Parkinson's and Tourette's.

As research and clinical trials for new cannabis-based drugs and raw cannabis extracts such as oil proceed quickly, many new therapeutic applications are expected to be proven.

The international trend towards cannabis legalisation

The legalisation of cannabis, an international trend seemingly approaching the tipping point, is an event set to take on historical significance to rival the 1933 end of Prohibition in the USA.

The similarities between the birth of new markets for alcoholic beverages and recreational cannabis after an extended period of prohibition are marked. But given the growing body of evidence around the medical properties of the cannabis plant, sub-species of which include both THC-heavy marijuana and CBD-only hemp, its impending global legalisation can be argued to be even more significant than the end of Prohibition a century earlier.

Broadly, these are the most common categories of cannabis's legal status in different territories around the world:

Prohibited

Criminal penalties for marijuana activity

Decriminalised

The removal of some criminal penalties for marijuana activity (like low-level personal possession), often replacing criminal penalties with civil fines.

Legalised for medical consumption

Medical marijuana laws can range from a limited criminal defence in court for medical marijuana use, all the way to full medical legalisation with commercial licensing and testing.

Legalised for adult consumption

Changing the law to make cannabis activity no longer a crime. This often involves striking cannabis from the state or country's Controlled Substances Act or equivalent legislation and adding new rules for legal commercial cultivation, distribution, testing, and sales.



The legal cannabis market – size and growth forecasts

As already noted, Grand View Research's latest market report 'Legal Marijuana Market 2021 – 2028', published in May of this year, estimates a market worth \$13.5 billion this year. An average CAGR of 26.7% over the next 7 years is expected to take the value of the legal cannabis market to \$43 billion by 2025 and \$70.6 billion by 2028.

In a 2018 report, the U.N. estimated 3.9% of the global adult population are cannabis users. From an adult population at the time of approximately 4.7 billion, that is over 183 million people.

Much of that growth rate will come from new territories legalising cannabis, taking market share from a black market estimated at worth at least \$65 billion in 2020.

North America still dominates the legal cannabis market with a revenue share of 79.6% in 2020. Other promising legal cannabis markets include the U.K., Australia, Mexico, Germany, Colombia, and Israel. These countries have started indigenous production, and are considered secondary markets expected to become viable in the coming years.

Statistics MRC, the global market research firm, puts the current value of the alcohol beverages market at around \$1500 billion internationally. Today, the global cannabis market is thought to be worth \$150 billion but the majority of it is still a black market, meaning numbers can only ever be an estimate.

There is still a black market even in territories like Canada where both medical and recreational use of cannabis have been legalised because not paying taxes means black market products tend to be cheaper.

But black market sales are predictably much greater in territories where the drug is still either illegal or possession is decriminalised but there is no legal, regulated market.

That will change. The cannabis prohibition, like that of alcohol before it, has failed. As with alcohol consumption during the Prohibition period in the USA, recreational use of cannabis has remained prevalent despite its illegality.

One of the most significant reasons why cannabis use is much more common than other illegal drugs is that users, and many others who don't personally consume cannabis, don't understand why it would be banned when alcohol consumption is socially acceptable.

Recreational use of cannabis doesn't have the same obvious negative personal or societal impact as alcohol. It's also not possible to 'overdose' on cannabis – a significant danger with alcohol and other drugs.

That is not to say that, as with any drug, overuse of cannabis does not have potentially negative consequences. Research is still limited but long-term abuse of cannabis, especially powerful 'skunk' strains of the drug, has been linked to psychiatric disorders. Adolescents whose brains are still forming or individuals predisposed to mental illness are thought to be at particular risk.

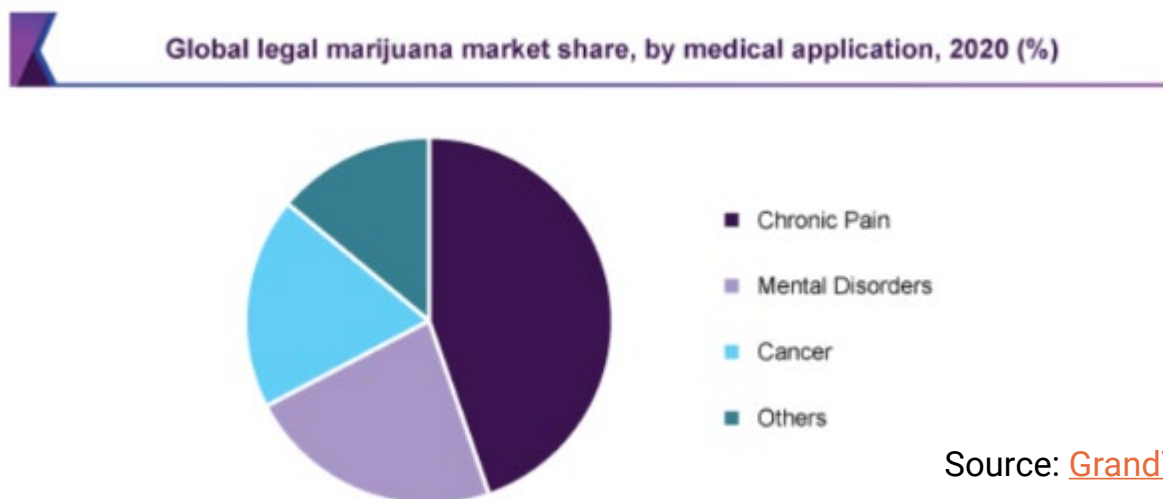


Cannabis-derived medicines

Cannabis also has now confirmed medicinal properties and research and clinical trials on new medical applications are ongoing. In 2018, Epidiolex, a drug developed by the UK's GW Pharmaceuticals and used to treat several rare forms of previously untreatable epilepsy, became the first cannabis-based medication to be approved by the US Food and Drug Administration and available on prescription.

At the time of writing in 2021, Epidiolex remains the only cannabis-derived drug with FDA approval, as well as three synthetic cannabis-related drug products **Marinol** (dronabinol) , **Syndros** (dronabinol) and **Cesamet** (nabilone) which are used to treat nausea and vomiting caused by chemotherapy as well, in the case of Marinol and Syndros, anorexia in adults with AIDS who have lost weight.

This month, a UK-based trial of another cannabis-based, Sativex, for the treatment of the most aggressive form of brain tumour is to launch at 15 NHS hospitals, following promising results from a phase I study in 27 patients. Sativex, like Epidiolex, has been developed by GW Pharmaceuticals.



Phase 3 trials of Sativex as a potential treatment for MS spasticity are also set to recommence after being delayed by the Covid-19 pandemic, which has had a disruptive effect on other clinical trials of cannabis-derived treatments.

Cannabis-derived drugs combine compounds found in cannabis, cannabinoids, with other medicinal compounds. However, cannabis in its pure plant form can also be prescribed as a medicine in some territories.

The impact of the Covid-19 pandemic on the legal cannabis market

The Covid-19 pandemic has undeniably hit the growth of the legal cannabis market. Supply chain management of cannabis products has been disrupted and the supply of cannabis in dispensaries has fallen. The pandemic has also hit the export business with the disruption in the supply chain caused due to lockdowns in major countries also affected imports.

However, the number of patients adopting cannabis as a treatment is likely to have increased due to the growth in the prevalence of medical conditions that medical cannabis can be used as a treatment for, such as certain forms of anxiety and depression.

On positive regulatory development over the pandemic period, which also saw governments around the world put cannabis law reforms on the back burner while dealing with the crisis was the European Commission resuming novel food applications for edible CBD products in December 2020.

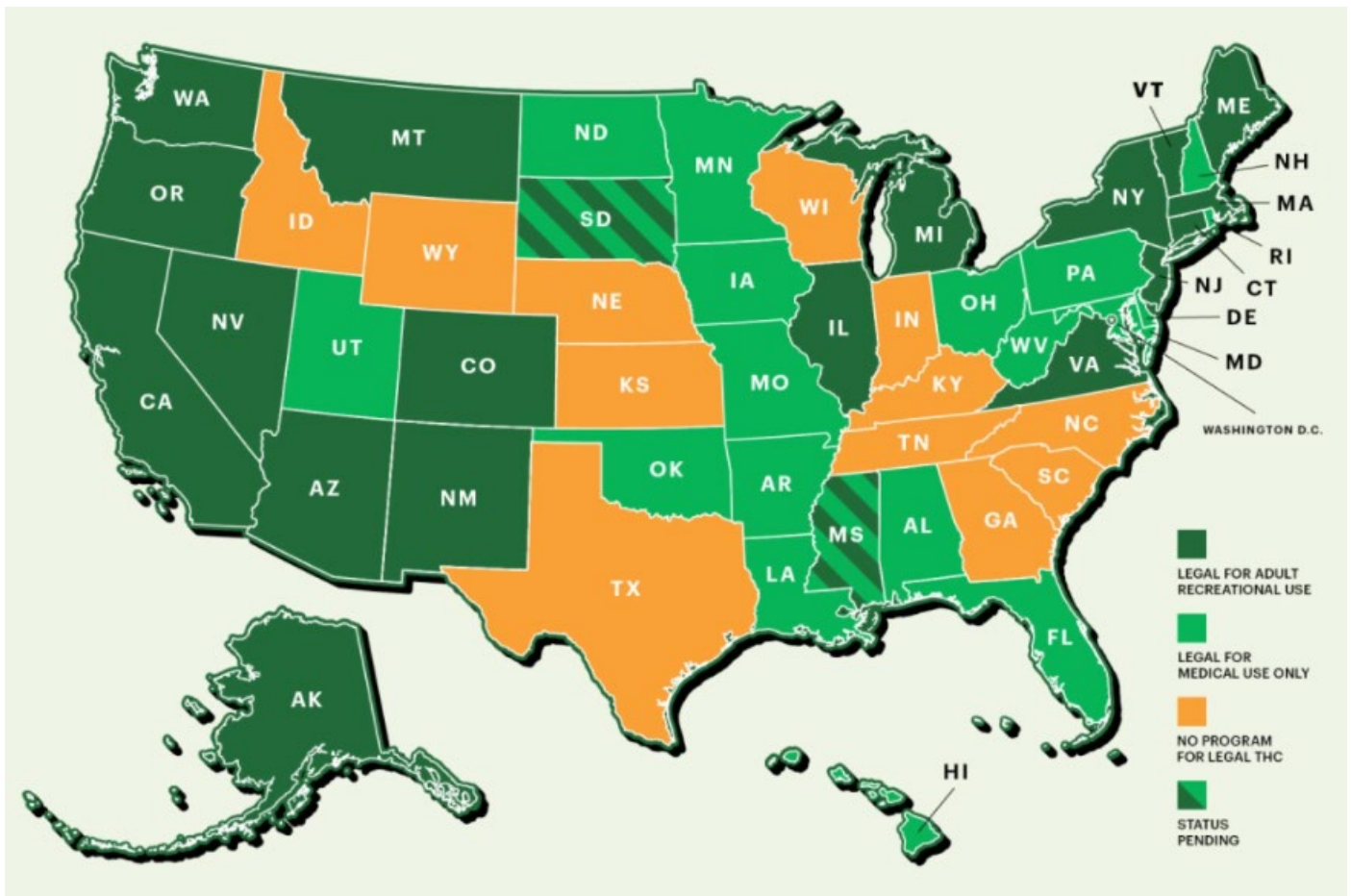
The demand for legal marijuana is expected to surge rapidly again now due to changes in government policies as they address questions such as legalising cannabis again. Several new startups are venturing into R&D, cannabis testing, and manufacturing. In Canada, multiple provinces are looking forward to the privatisation of cannabis retail stores and many that originally chose a single supplier are now inviting applications from multiple suppliers. These factors are anticipated to drive the market over the next year and beyond.

The legal cannabis market in the USA – the drug's biggest market

There are now fewer states that have not legalised cannabis for either medicinal or recreational purposes (12), than there are that have fully legalised it (18). A total of 36 states, plus the District of Columbia, Guam, Puerto Rico and U.S. Virgin Islands have approved comprehensive, publicly available medical marijuana/cannabis programs.

On Election Day 2020, another four states voted to legalise cannabis. This March, New York made its long-awaited leap into the legal industry, pushing a progressive bill through the state legislature. Virginia, New Mexico, and Connecticut have all since followed and South Dakota approved medical use in July. The election vote last year should mean full legalisation is coming to the state but there is some pushback from Governor Kristi Noem who would prefer medical approval and decriminalisation of recreation use to full legalisation.

Despite more than a third of Americans now living where cannabis is legal, the unique state-based legal system in the USA does, however, lead to the slightly strange conflict of realities that cannabis is still illegal on a federal level.



Source: [Rolling Stone](#)

Internationally, 49 countries or territories have legalised cannabis fully or partially for medical and/or adult use. Canada was famously the first country to completely legalise cannabis when it did so in 2018, followed by Uruguay.

Canada's stated target benefits for legalisation offer a strong clue as to why much of the rest of the world is in the process of following its lead:

- ✔ Reduce the consumption of cannabis by young people.
- ✔ Keep profits from the cannabis market out of the hands of criminals.
- ✔ Strengthen law enforcement measures to deter the sale of cannabis outside the legal framework, especially to young people.
- ✔ Establish and enforce strict regulations around producing, distributing and selling cannabis.
- ✔ Continue to provide access to cannabis for medical purposes.
- ✔ Apply taxes to legal cannabis sales.

As does the statement made by the country's Parliamentary Budget Officer:

"Some common threads that underpin the arguments for legalising cannabis are that: cannabis is relatively less harmful than other drugs, including other legal drugs, the costs of enforcement of existing criminalisation are high and that there are perceived medicinal benefits that are not being exploited."

The writing is on the wall. Within a decade, less for large swathes of Europe, the Americas, Caribbean, Africa, southeast Asia and Oceania, cannabis will almost certainly be legalised. Some countries and regions can be expected to take the first step with cannabis for medical purposes but the legal barriers are crumbling.

The legal cannabis market is already huge, centred around the USA and Canada, but is a mere speck of what it is expected to grow to as legislative change sweeps across borders.

Do investors have a responsibility to themselves to explore the arguably once-in-a-lifetime opportunity that represents? You decide but the rest of this report will lay out more facts to help you construct the argument.

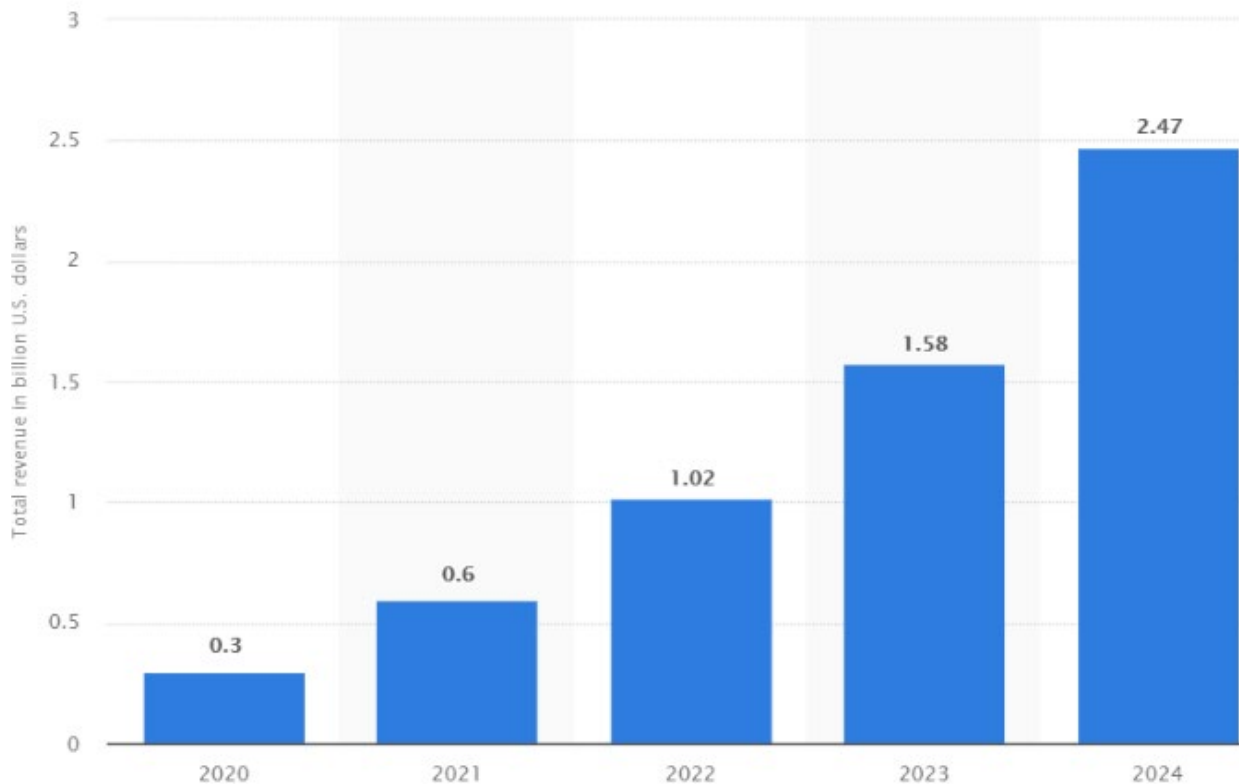
Europe Is Rising – the biggest potential market outside of North America

As of 2021, the legal cannabis market is centred around North America. But that is expected to change. Europe is considered the next big market, even if the legalisation process has taken longer than expected to gather momentum, with the Covid-19 impact pushing the debate temporarily into the background.

Back in 2019, Consultancy.eu, a news and data hub for the consultancy industry, forecast:

"In the next five years, Europe is set to become the world's largest legal cannabis market. With a population of more than double that of the United States and Canada combined, the market is ripe, and the industry has grown more in the last year than the last six combined, according to a new report".

Annual legal cannabis market revenue in Europe from 2020 to 2024(in billion U.S. dollars)



Source: [Statista](#)

The growth of the European market has stalled, in large part due to the pandemic delaying legislative reviews in several countries. But progress towards legislative reform around legal cannabis, especially medical cannabis, can now be expected to resume, opening up new markets.

The medical cannabis market is considered to hold the greatest commercial potential in Europe over the short term, with recreational legalisation expected to represent a slower process.

The most recent, 6th, edition of [The European Cannabis Report](#), published in March 2021, has toned down its forecasts for the market compared to previous editions. However, things should now start getting back on track and a forecast CAGR of 67.4% over the next few years represents a potentially exciting opportunity.

The reports key predictions for the legal cannabis market in Europe are:

- ✔ The European cannabis market will be worth €403.4 million by the end of 2021. We expect the market to grow with a CAGR of 67.4% from 2021 to reach €3.2 billion by 2025.
- ✔ By the end of the forecast period, we expect several nations to introduce legal access to adult-use cannabis including Netherlands, Switzerland, Germany and others. We estimate these sales could be worth over €500 million by 2025.
- ✔ We predict Germany will constitute over half of the European market until 2024 and will be worth over €840 million by the end of the forecast period. By 2025, large countries like France and the UK will have developed their patient access considerably and will represent a significant share of the European market.



Investing in the legal cannabis market - the opportunities

If you understand the higher risk level a market as nascent as legal cannabis represents but are still keen to gain exposure to its high potential, you will need an investment strategy. Most likely that will be to invest in companies with direct exposure to the legal cannabis market.

The largest companies in the sector are becoming more vertically integrated across the supply chain but most focus on a particular stage:

Land

From an investment perspective the land that legal cannabis can be grown on is particularly interesting because it will require permits to meet the regulatory framework to be used for that purpose.

The agricultural plots themselves do not need especially rare grades of soil, so can be acquired at reasonable rates. Securing the permits for cannabis cultivation as well as adding the infrastructure to facilitate the propagation, harvesting and exportation of any crop, would be expected to add significant value to the asset.

Investing in agricultural land with a view to securing cannabis cultivation permits is certainly not for inexperienced or hands-off investors but could be an interesting future opportunity for some under the right circumstances, such as through a sector-focused land fund or REIT.

Cultivation

The cultivation of legal cannabis itself can be considered as a specialist form of agriculture that would be expected to offer higher margins than standard cash crops such as cereals and other common foodstuffs or industrial plants such as cotton. As in any crop-based market, the backbone of the legal cannabis market is efficient cultivation.

Under secure greenhouse conditions, every square foot of land that cannabis is grown on produces 40-80 grams of commercial 'bud'. With one gram selling for about £4 on the wholesale market, a crop can yield more than £160 per square foot. Potentially much higher if the crop is a 'craft' product made to order.

Again, investing directly in cultivation is not for the vast majority of investors. But there are opportunities, like through the tax-efficient EIS programme, that might offer the chance of a hands-off investment in a company with a business plan based on cultivation.

Bespoke Strains/IP

As in any agriculture or pharmaceuticals business, and the legal cannabis market can legitimately be said to sit between both, holding valuable IP can be hugely lucrative. Across both the legal recreational and medical cannabis market, developing specialised 'strains' of the plant will be a key goal of some of the companies in the space.

For medical cannabis companies, both pharmaceuticals developing approved cannabis-derived drugs and those selling medical cannabis in its plant form, specific strains will be valuable.

Medical companies want to research cannabis plants that only express desired genes. There are nearly 25,000 genes found in cannabis' 10 chromosomes, and every strain is made up of a different combination of these.

Products

As with any market, companies that are most successful in the legal cannabis market will be those with either the best products, best marketing, or, ideally, a combination of the two. The market is diversifying its range of products quickly. The main categories are:

- ✓ Cannabis in its pure, plant bud form
- ✓ CBD oils and creams
- ✓ Sprays
- ✓ Herbal tablets and liquids
- ✓ Edibles and liquids infused with cannabis

Logistics

The legal cannabis market requires a well-oiled logistics framework. The biggest companies in the market are expanding vertically to set up their own logistics (and cultivation etc.) infrastructure. But others will rely on third-party providers.

Retail

The last stage of the line from field to consumer is the retail network. Some of the biggest players will have their own branded retail outlets but most will sell their products through general (depending upon licensing requirements for particular products) and specialist retailers, both online and in traditional bricks-and-mortar dispensaries.



Ways To Invest In The Legal Cannabis Market

There are several routes to investing in the legal cannabis market. These do not differ materially to those for any other market.

Publically Listed Companies

With many cannabis industry companies now publically listed on international stock exchanges, mainly in Canada, buying shares in them is one of the easiest ways for investors to gain exposure to this rapidly growing market. The Canadian Securities Exchange lists over 100 stocks of companies whose revenues are either all or partly derived from the legal cannabis industry.

There are also, usually larger, legal cannabis sector companies listed on the larger Toronto Stock Exchange and now several on the NASDAQ. However, Canadian stock exchanges are still home to a majority of legal cannabis companies operating in the USA due to the onerous requirements of major exchanges at home.

The earlier and more developed access that Canadian cannabis industry companies have had to capital markets has given them a financial advantage over peers from the USA and elsewhere. Listed Canadian companies have already started making acquisitions focused on the much larger US market. US companies may subsequently catch up and dominate but Canadian peers have a good head start and will be seeking to take as much advantage of that as possible.

Another less direct stock market play on the legal cannabis industry are pharmaceuticals and life sciences companies with drugs and other products that contain cannabis or cannabis-derived ingredients. And, perhaps surprisingly, some major publically-listed companies in the drinks industry have made early plays.

Constellation Brands, which owns the Corona beer brand, bought a minority stake in Canopy Growth, a Canadian medical marijuana company. Diageo, Molson Coors and Pernod Ricard are also said to be weighing up acquisitions in the sector.

As with picking any stock, it is important to carefully assess the company's fundamentals.

Many of the UK's major online investment platforms and stockbrokers offer cheap access to international stock markets. This means that cannabis stocks can be part of an ISA or SIPP portfolio. Pay close attention to currency conversion charges for shares denominated in foreign currencies as some stockbrokers can charge up to 2%.

Some of the more prominent stocks that offer direct exposure to the legal cannabis market

include:

- Canopy Growth Corporation
- Aurora Cannabis
- Aphria, Inc.
- Tilray
- ABCann Medicinals, Inc.
- The Cronos Group
- Maricann Group, Inc.
- Organigram Holding, Inc.
- Lexaria Corp.

Cannabis ETFs

Because the legal cannabis industry is so young, picking individual companies to invest in is risky. It's hard to predict at this point which will become the industry's dominant players and some may well prove to be unsuccessful as the market grows and competition heats up. In this context, ETFs, which passively track the sector are a good option to gain exposure to the wider market.

Cannabis ETFs can be found listed in both Canada and the USA. As of early 2021 there are a handful and the number can be expected to grow. As well as cannabis growers and vendors, cannabis ETFs also cover life sciences companies with significant exposure to the legal marijuana sector.

The biggest cannabis ETF is the Toronto Stock Exchange-listed Horizons Marijuana Life Sciences Index ETF. The ETFMG Alternative Harvest ETF and the Horizons Marijuana Life Sciences Index ETF are US-traded ETF options.

Markets analysts have also urged caution on investors rushing into the cannabis industry-focused ETFs currently on the market with concerns over how well they are structured and the diversity of their exposure. Another warning is that only a couple have already reached critical mass. However, it's certainly an option to keep an eye on with the market developing quickly. Existing ETFs will grow and new options enter the market.

There are also now actively managed ETFs focused on the legal cannabis sector, including:

- ✓ Amplify Seymour Cannabis ETF (CNBS)
- ✓ Cambria Cannabis ETF (TOKE)
- ✓ AdvisorShares Pure Cannabis ETF (YOLO)



Pre-IPO Private Investment

For high net worth and sophisticated investors, a further option is private equity investment in young and growing companies in the legal cannabis industry. This can be done through two main routes.

Private Equity Funds

The first is private equity funds that are either solely focused on the legal cannabis industry or have exposure to it. The drawback to investing through a private equity fund is that the starting level is usually in the hundreds of thousands of pounds or dollars. Or, depending on the fund, even millions. And as of late 2020, the Verdite Capital Fund is the only UK-based private equity fund offering direct exposure to the legal/medical cannabis market.

Tax-Efficient EIS Investments

EIS stands for 'Enterprise Investment Scheme'. The scheme offers huge tax-leveraged incentives to investments in qualifying UK start-ups and high-growth younger companies. Appropriate for sophisticated and high net worth investors, and therefore not so widely promoted as tax-saving investment structures as the mainstream ISAs and SIPPs, EIS is less well known.

But for more experienced investors with larger portfolios able to allocate higher risk/higher reward investment opportunities, EIS should not be overlooked. The scheme offers very attractive tax incentives, not least on inheritance tax.

Launched in 1993, the EIS scheme was designed by the government to help support young, quickly growing enterprises in raising equity-based investment finance. The support mechanism the scheme provides is in allowing investors to claim back income tax on a significant chunk of the initial investment and then to also further offset future losses should they occur. Profits resulting from EIS investments are also exempt from both capital gains tax and inheritance tax.

It is important to note that investors, or the beneficiary of an inheritance, must have held EIS or SEIS shares for at least 3 years before they are sold. Selling at an earlier date will mean the shares lose their tax relief status.

When investing through EIS, investors can claim initial **income tax relief of 30%** on investments in EIS-qualifying companies of up to an annual value of £2 million with no minimum level. To qualify for the full £2 million EIS investment cap, at least £1 million must be invested in a company categorised as a 'knowledge intensive company' or (KIC). As long as you are a high earner and pay enough income tax to cover it, you can reclaim up to £300,000 via your

tax bill.

There is also a 'carry back' facility which allows you to allocate part of the investment to the previous tax year if your income tax bill for the year you make the investment in is not sufficient for you to take full advantage of the tax relief.

Capital gains tax relief is another advantage of EIS. As long as you have claimed the income tax relief and held your shares for at least 3 years, any subsequent profit on the investment at the point of exit is Capital Gains free.

Loss relief means that if the shares acquired in the company are subsequently sold at a loss, that loss, minus the initial income tax relief, can be deducted from the investor's income tax bill for the year the shares were sold during, or the previous year.

Capital gains deferral relief is a further feature of the scheme. If you have sold an asset that is subject to capital gains tax, an EIS investment made one year before or three years after those gains were made can be deferred against it.

Inheritance tax relief applies in full to any returns made on EIS investments held for at least 3 years.

Opportunities and Risks Of Pre-IPO Legal Cannabis Investments

Pre-IPO private equity and venture capital (venture capital investment usually refers to earlier stage start-ups) investments are both exciting and risky. The best investment returns are often made by taking a stake at some stage before a company goes public. That can especially be the case when a pre-IPO investment is in a company targeting a new market.

For example, when electric car-maker Tesla IPO-ed in 2010, it sold its stock at \$17, valuing the company at around \$1.7 billion. As of August 2021, Tesla is worth \$692 billion. That's a 'since IPO' return on investment of over 4000% in 11 years, averaging out at a little over 365% a year, though the lion's share of those returns has been generated over the past 20 months.

Tesla Inc

699.10 USD

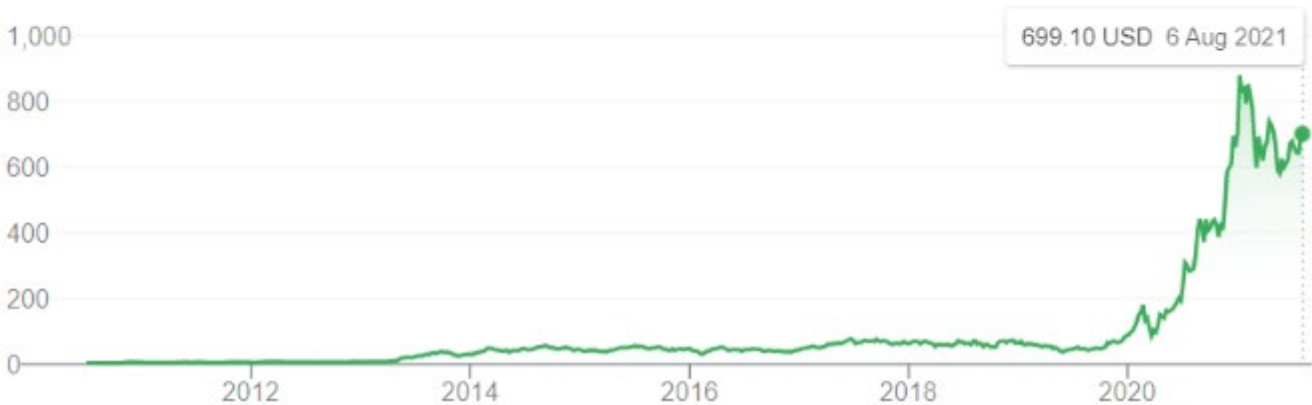
NASDAQ: TSLA

+695.26 (18,105.73%) ↑ all time

Closed: Aug 9, 04:40 EDT · Disclaimer

Pre-market 708.00 +8.90 (1.27%)

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



But investing in Tesla pre-IPO would have led to even better returns. The table below shows the Tesla share price across its Series A-F private investment rounds. Early investors, including current CEO Elon Musk, bought shares in Tesla during its Series A round at just \$0.493. Even by Series F, the shares were sold at less than \$3.

That means a Series F investment would have returned over 470% at the IPO price of \$17 a share. A Series A investment would have returned almost 3350% at the IPO. And Elon Musk's Series A investment has, at Tesla's \$699 share price as of August 2021, provided him with a return of 141,684%.

Tesla Motors, Inc.
Notes to Consolidated Financial Statements
(continued)

6. Convertible Preferred Stock

The following table summarizes information related to our convertible preferred stock at September 30, 2009:

	Par Value	Share Price	Authorized	Issued and Outstanding (Unaudited)	Liquidation Preference	Proceeds, Net
(In thousands except share and per share amounts)						
Series A	\$ 0.001	\$ 0.493	7,213,000	7,213,000	\$ 3,556	\$ 3,549*
Series B	0.001	0.740	17,459,456	17,459,456	12,920	12,899
Series C	0.001	1.135	35,893,172	35,242,290	40,000	39,789
Series D	0.001	2.440	18,440,449	18,440,449	45,000	44,941
Series E	0.001	2.512	104,000,000	102,776,779	258,175	135,669
Series F	0.001	2.969	30,000,000	27,785,263	82,500	82,378
Total			213,006,077	208,917,237	\$ 442,151	\$ 319,225

* Net of \$3.9 million conversion of Series A convertible preferred stock to common stock.

In May 2006 and June 2006, we completed financing totaling \$40.0 million through the issuance of 35,242,290 shares of Series C convertible preferred stock at \$1.135 per share. In connection with this financing, we converted warrants issued with the March 2006 convertible notes payable (see Note 7) to warrants to purchase 650,882 shares of Series C convertible preferred stock (see Note 8). The warrants are exercisable at \$1.135 per share on or before the earlier of March 30, 2011 or an initial public offering.

In May 2007, we completed financing totaling \$45.0 million through the issuance of 18,440,449 shares of Series D convertible preferred stock at \$2.440 per share.

In November 2007, 8,000,000 shares of Series A convertible preferred stock valued at \$0.493 per share were converted into common stock at the ratio of 1:1.

But it took the Tesla share price 3 years in the stock market doldrums to even return to its IPO price of \$17. Plenty of investors would have given up and cut their losses long before 2013's gains. And it wasn't until 2020, almost 10 years later, that the Tesla share price took off. In the meanwhile, many believed the company would fail and bet against it through 'short' positions on its share price – which deliver a return if valuation falls.

The harsh reality is, that while Tesla has gone on to be a massive success as a company, and a hugely profitable investment for pre-IPO investors (even post-IPO investors who bought in before the second half of 2020), things could have turned out very differently.

When Elon Musk and other early investors bought into Tesla, there was a better than average chance the company would never reach IPO and that they would lose all or a good part of their money. Venture capital and earlier stage private equity funds typically work to an investment strategy that anticipates up to circa. 80% of investments not working out, resulting in losses.

It's a strategy based on the inherent high-risk nature of pre-IPO investments. Overall returns are generated from the minority of investments that do work out. That means pre-IPO investments should very much be considered high risk/high reward.

As a company moves closer to an IPO that risk to reward ratio adjusts. 'Pre-IPO' investments usually refer to a private company's final, or expected as final, investment round, before it moves to IPO. At that stage, the chances of the company going public are relatively high. But certainly not guaranteed if things don't go to plan.

Which is why 'Pre-IPO' investment rounds, usually 3 to 18 months ahead of a listing, tend to offer shares at a significant discount to the intended IPO valuation. Pre-IPO funds are usually at least partly used to fund the considerable expenses involved in an IPO. And also often to invest in driving revenues up, for example through increased marketing spend, ahead of the IPO.

Even IPO investments are considered relatively high risk, as there is still no evidence how a previously private company will be judged by public markets. Some companies are immediately successful post-IPO and see their share price rise. Others (like or Tesla example) take months or even years to find their feet. While some never make it as publicly traded companies. Pre-IPO, either immediately ahead of a listing, or earlier stage investments are riskier still.

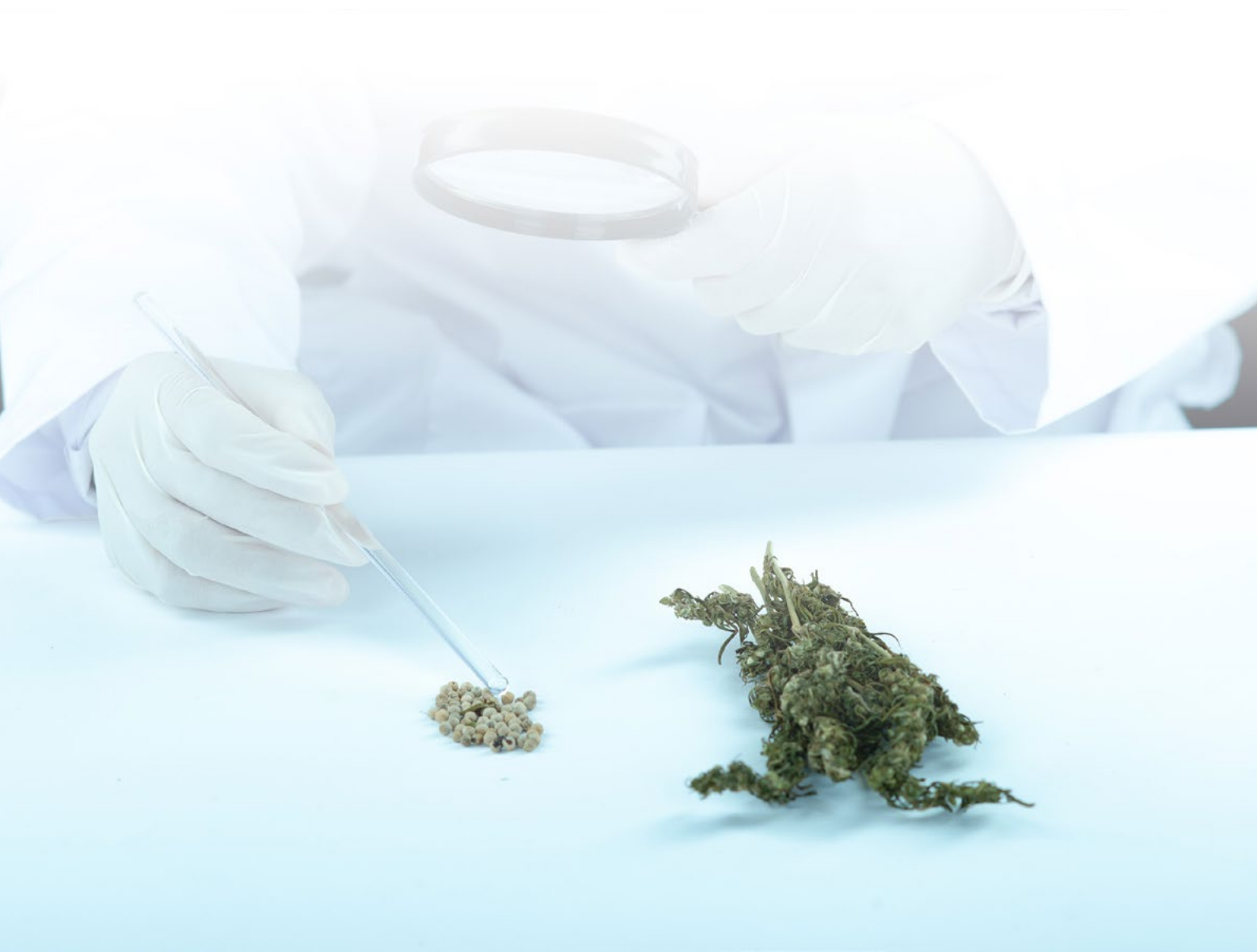
Over the next several years, the medical and legal cannabis market can be expected to offer numerous pre-IPO investment opportunities as the market quickly grows. Investors may well be attracted to these opportunities due to the considerable upside they represent if things go well.

But it should be remembered that the immaturity of the sector as of 2020 is comparable to that of the electric vehicles market 10 years ago. As the market matures, successful

companies in the nascent sector can be expected to do very well indeed. But many will not reach that stage and either be acquired, possibly but not necessarily at a price that will represent a return for early investors, or fail.

And any pre-IPO investment, especially if not part of an immediately pre-IPO investment round, is illiquid. Shares in privately held companies are not traded on the stock exchange. That means finding a buyer can be difficult unless the company offers early stage investors a 'cash-out' opportunity, such as an equity buy-back or during a later investment round.

In conclusion, pre-IPO investments in the legal cannabis sector have a high-risk profile. They should only be considered by investors who understand that risk profile, how to balance it within a broader portfolio, and are prepared to lose some or all of their initial investment. And accept illiquidity that could see capital tied up for years, in the pursuit of the 'big win', this kind of investment can be, in the positive scenario.



Conclusion

The legal cannabis market, first medical and increasingly recreational, will be hugely value and getting in early holds the promise of potentially very attractive rewards. The nascent status of the industry also means an undeveloped market for investment vehicles, many unknown variables, a lack of historical data for investors to analyse and considerable risk.

For investors, the key will be spreading risk by investing in a diversified selection of stocks, and ETF or by taking advantage of the significant tax breaks that the EIS vehicle offers private equity investments in younger companies yet to list on the stock exchange. But by choosing investments in the legal cannabis sector carefully and diversifying, the rewards a new market opportunity of unparalleled scale are placing on the table are an enticing opportunity for the adventurous investor.

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